

Auditor-General of South Africa

Dr Nkosazana Dlamini-Zuma
Municipality – audit report 2016-17

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Dr Nkosazana Dlamini-Zuma Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Dr Nkosazana Dlamini-Zuma Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dr Nkosazana Dlamini-Zuma Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material impairments

7. As disclosed in note 3 to the financial statements, material impairments of R29,05 million were incurred as a result of an annual review of the recoverability of receivables.

Other matter

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

9. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated

the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

| Objectives | Pages in the annual performance report |
|--|--|
| Objective – to unlock access to economic opportunities, social services and facilitate additional infrastructure provision | x – x |
| Objective – to construct community recreational amenities and maintain existing structures | x – x |

17. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective – to unlock access to economic opportunities, social services and facilitate additional infrastructure provision

Performance indicator not well defined

Various indicators

19. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the following indicators, contrary to the Framework for Managing Programme Performance Information (FMPPI). This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to test whether these indicators were well defined by alternative means.

- Percentage of Thonsini access road constructed by 31/12/2016 (0.4km) ■
- Percentage of Mvuleni-sexule pedestrian bridge constructed by 31/03/2017 ■
- Percentage of Creighton phase 3 access road constructed by 30/06/2017 (1.3km) ■
- Percentage of Bulwer phase 3 access road constructed by 30/06/2017 (1.5km) ■
- Percentage of Creighton phase 4 access road constructed by 30/06/2017 (0.75km) ■
- Percentage of Bulwer phase 4 access road constructed by 30/06/2017 (0.48km) ■
- Percentage of Mtolo access road constructed by 30/06/2017 (1.2km) ■ Percentage of Magelekedle access road constructed by 30/06/2017 (0.840km) ■ Percentage of

Sopholile to Mayeza access road constructed by 30/06/2017 (0.85km) ■ Percentage of Maxhini access road constructed by 30/06/2017 (0.700km) ■ Percentage of Ezitendeni access road constructed by 30/06/2017 (0.831km) ■ Percentage of Sigidlemba access road constructed by 30/06/2017 (0.84km) ■ Percentage of Mlimandlela access road constructed by 30/06/2017 (1.1km) ■ Percentage of Mabi access road (30/06/2017) (1.5km) ■ Percentage of Gingqizigodo access road (30/06/2017) (1.0km) ■ Percentage of Creighton asphalt phase 5 access road constructed by 30/06/2017 (1.5km) ■ Percentage of Bulwer asphalt phase 5 access road constructed by 30/06/2017 (1.5km) ■ Percentage of KwaPitela gravel road and causeway bridge constructed by 31/12/2016 ■ Percentage of Hlanganani 4 (Ward 1 & 2) households connected by 31/03/2017 (583 households) ■ Percentage of Qulashe (infills) connected by 30/06/2017 (17 households) ■ Percentage of Mahwaqa (infills) connected by 30/06/2016 (5 households) ■ Percentage of Qweleni/Mankawusana (infills) connected by 30/06/2017 (30 households) ■ Percentage of Greater of Kilmon 1000 households and fiddler line (1.5km) connected by 30/06/2017

Objective – to construct community recreational amenities and maintain existing structures

Performance indicator not well defined

Various indicators

20. I was unable to obtain sufficient appropriate evidence that clearly defined the predetermined source information and evidence to be used when measuring the actual achievement for the following indicators, contrary to the FMPPi. This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to test whether these indicators were well defined by alternative means.

■ Percentage of Bulwer service centre constructed by 30/06/2018 ■ Percentage of Centocow shelter and toilets constructed by 30/06/2017 ■ Percentage of Bulwer community hall and library maintained by 30/06/2017 ■ Percentage of Creighton main building renovated by 30/06/2017 ■ Percentage of old municipal building maintained by 30/06/2017 ■ Percentage of Creighton hall maintained by 30/06/2017 ■ Percentage of Creighton public toilets maintained by 30/06/2017 ■ Percentage of Bulwer public toilets maintained by 30/06/2017 ■ Percentage of Bulwer art centre maintained by 30/06/2017 ■ Percentage of Bulwer taxi rank maintained by 30/06/2017 ■ Percentage of Kilmon taxi rank maintained by 30/06/2017 ■ Percentage of Mzokhulayo creche constructed by 30/06/2017 ■ Percentage of Thokozani creche constructed by 30/06/2017 ■ Percentage of Makawusane sports field constructed by 31/03/2017 ■ Percentage of Bethlehem sports field constructed by 31/12/2016 ■ Percentage of Khukhulela sports field constructed by 30/06/2017 ■ Percentage of Enhlanhlani combo courts constructed by 30/06/2017 ■ Percentage of Gqumeni sports field phase 2 constructed by 30/06/2017

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. The annual performance report on pages x to x and x to x includes information on the achievement of planned targets for the year and explanations provided for the underachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 19 and 20 of this report.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the objective – to unlock access to economic opportunities, social services and facilitate additional infrastructure provision as well as the objective – to construct community recreational amenities and maintain existing structures. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

24. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

25. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, non-current liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

27. Bid documentation for procuring commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by regulation 9(1) of the Preferential Procurement Regulations of South Africa, 2011 (PPR).

28. Commodities designated for local content and production were procured from suppliers that did not submit a declaration on local production and content, as required by regulation 9(1) of the PPR.

Strategic planning and performance management

29. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.
30. Key performance indicators were not set for the provision of basic solid waste removal services, as required by section 43(2) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and municipal planning and performance management regulation 10(a).

Other information

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword, accounting officer's report and audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
33. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

35. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
36. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

37. Senior management did not exercise adequate oversight over the planning of performance information as well as compliance with key legislation.

Financial management

38. Non-compliance with legislation could have been prevented had senior management updated their compliance checklists to include the requirements of the PPR and the MSA.

Auditor-General

Pietermaritzburg

30 November 2017



**AUDITOR-GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.